

Weekly Energy Price Summary and Outlook for October 30, 2008

Jackson W. Mueller, Jr.

Summary

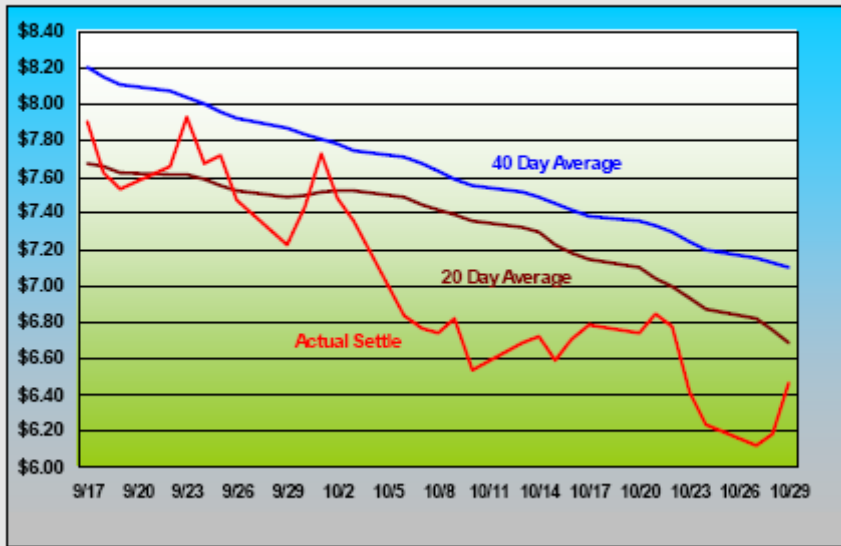
The process of short-covering which started on Monday in the equity markets is continuing to work its way through the rest of the global markets. With the dollar taking a big hit over the last few days the short covering rally, oil and natural gas prices were hit hard on Wednesday even as this week's oil inventory report came in at best neutral to slightly bearish. With more than half of the week behind us, some of the most beat-up equity markets around the world are starting to exhibit very early signs that the worse may be over for now. Two big events that impacted oil and natural gas prices on Wednesday: interest rates and inventories. The Fed presented a somewhat bleak economic outlook and as a result, cut interest rates by 50 basis points (1/2%) bringing the Fed Funds rate down to 1%. The action by the Fed and the contracting of the US economy are all bearish for the dollar because the remedy to slow the contraction is lower interest rates. If the other major economies (Japan and European Union in particular) do not follow suit quickly and lower their interest rates, the gains made in the US dollar over the last month or so may be quickly wiped out and thus set the stage for further firm price gains in natural gas and the oil and commodity complex. When we look at natural gas and oil prices (and electricity by association), the major ingredient in determining the direction of energy prices is and will continue to be strongly related to direction of oil demand. This week's oil inventory report showed that demand reduction could be slowing. For the moment, we can say that we may be approaching a bottom in consumption, especially with space heating demand immediately ahead. With a considerable amount of short covering over the last few days in the big three related markets - equities, currencies and oil (and natural gas and electricity by association), we seem to be getting closer to the next expected scenario of the market putting sidelined cash back to work. Over the next few days, what happens in the equities complex will be critical for the more medium term direction of the dollar, oil and natural gas. We also have the Presidential election early next week. Depending on who gets elected, the equity and energy markets may react strongly in either direction adding another level of complexity into the mix. If current energy prices meet budget needs for forward periods, end-users still shopping for term prices would be prudent to begin buying to avoid unwanted price run-ups.

Natural Gas

During its last session as the front month contract, NYMEX November natural gas futures posted a sharp gain today on a combination of short covering, a brief cold snap in the Northeast and Midwest consuming hubs, and a rally by the broader energy complex. Building on Tuesday's \$.065 per MMBtu gain — the first advance for November natural gas futures in five straight sessions — the contract settled and expired Wednesday at \$6.469 per MMBtu, up \$.283, or 4.6% after covering a \$6.519 to \$6.90 range on Globex and a \$6.38 to \$6.57 spread in open outcry. December natural gas futures, meanwhile, ended the day at \$6.778, up \$.362 cents, or 5.6% after spanning a \$6.519 to \$6.90 range on the electronic platform and a \$6.60 to \$6.870 spread on the floor. Technically, support for natural gas is found near \$6.00, \$5.75 and \$5.50 per MMBtu. Resistance is found at \$7.00, \$7.60, \$8.30, \$8.50, \$8.77, \$9.00, \$9.50, and \$10.00 per MMBtu. Please see a chart below of the progressive near-month price of natural gas in red, now in a firm upturn and approaching the 20-day moving price average.

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**The 20-day and 40-day Nearby NYMEX
Moving Averages Vs. Actual Settle**



Natural gas futures continued to work higher overnight amid pre-expiration short covering, ongoing chilly weather in the East and Midwest, and amid a rally by the broader energy complex following a bounce Wednesday morning in the wake of Tuesday's nearly 900-point surge by the Dow Jones Industrial Average.

Following today's expiration of November natural gas, traders will now turn their focus to tomorrow's weekly underground storage report from the EIA. Coming off four straight above-average builds, this week could offer a near normal net injection to maintain the robust pace towards pre-winter inventories. Forecasts point to a build in the low 40s billion cubic feet (Bcf), not far from the 42-Bcf five-year average for this week and some 20+ Bcf below the 66-Bcf build reported in the same week last year. Anything near the current projections would push total stocks further into the industry comfort zone ahead of the peak winter demand season. Assuming a build of 45 Bcf, total stocks would approach 3.39 trillion cubic feet (Tcf), close to 95 Bcf above the five-year average but still 100 Bcf shy of last year's record high levels. Overall, the market continues to see above normal stocks by the end of the injection season with an average weekly refill rate implying season-ending inventories over 3.44 Tcf by early November and with a more aggressive refill rate putting stocks over 3.5 Tcf by season-end, just below last year's record-high total of 3.539 Tcf.

Over the past week, the average day-ahead spot gas prices in North America have decreased 7.3%, from \$6.13 to \$5.68 per MMBtu. A chart of prices traded at major hubs follows the Fundamentals section. In the physical natural gas market Wednesday, cash prices were again on the upswing in most markets during the midweek session because of an advance by the gas futures market and cold weather across the East and the Midwest increased heating demand.

Crude Oil

Initially following equities higher, the oils complex kept its posture following the mid-morning release of the latest weekly inventory data which detailed a smaller-than-expected 500,000-barrel build in crude stocks, an unanticipated 1.5-million barrel draw in gasoline supply, and a larger-than-expected 2.3-million barrel increase in distillates supply for the week ending October 24 and headed into the afternoon supported by a decision by the Federal Reserve to lower its benchmark overnight lending

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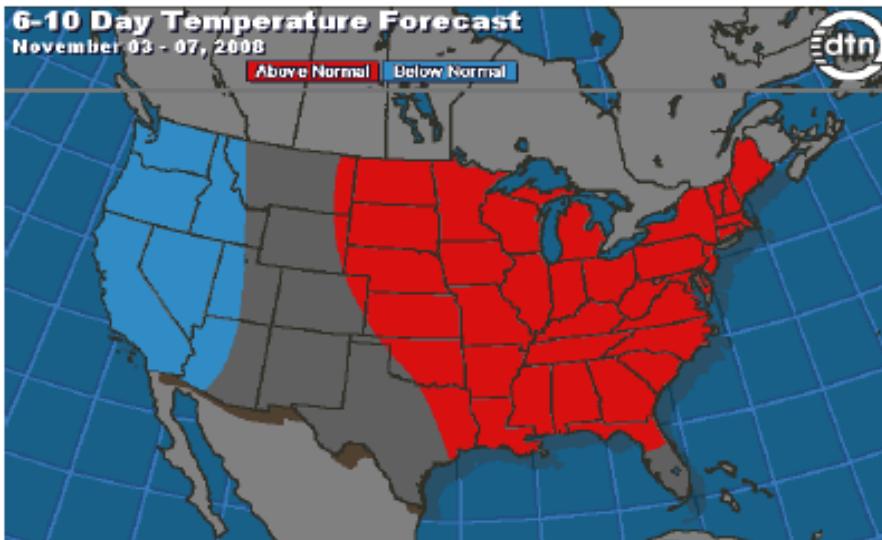
rate by 50 basis points to 1%. At day's end, December crude was up \$4.77 or 7.6% to \$67.50 per barrel, with November heating oil finishing \$.089 or 4.7% higher at \$2.0010 per gallon, and frontline RBOB (gasoline) futures up \$.0775 or 5.3% at \$1.5330 per gallon.

Electricity

Over the past week, the average Heat Rate in North America dropped 1.8%, from 8549 to 8397. A chart showing Heat Rates traded at major hubs follows the Fundamentals section. Utilities generated 72,073 GWh in the week that ended October 25, which was 1.6% below the 73,267 GWh generated in the corresponding week of 2007. The weekly total was 700 GWh below the 72,773 GWh total posted in the week that ended October 18. Output fell in five of the nine regions EEI assesses, with the largest percentage decrease in the Southeast, where generation slid 6.5% from the prior year to 19,762 GWh. Generation rose in four regions, with the largest percentage increase occurring in the Rocky Mountain region, where output was 5,256 GWh, or 4.1% above the production in the same week in 2007. That was followed by the Pacific Northwest, where output rose 3% to 3,095 GWh from the comparable week of last year.

Weather

The National Weather Services (NWS') 6-10 day and 8-14 day outlooks, following the brief spate of cold this week in the Northeast and Midwest, are for warmer-than-normal conditions across the East and into much of the Midwest, with below-normal temperatures eyed for the West coast, Southwest and Rockies. Please see a weather anomaly chart below from DTN for the coming 6-10 days showing cooler-than-normal in blue and warmer-than-normal in red (largest energy demand area).



In the tropics, activity simmers but currently poses no real risk to Gulf of Mexico production. Existing Gulf of Mexico production previously shut-in by the two hurricanes in September continues to hobble back to operation, with the MMS reporting yesterday that 33.5% (or 2.476 Bcf per day) is still currently offline in the region following the dual storms.

Fundamentals

On the fundamental side, comparing this week to a year ago, the near month NYMEX gas futures price is 5.6% lower, the 12-month NYMEX gas strip price is 8.7% lower, the West Texas intermediate crude oil near month NYMEX futures price is 19.8% lower, the gas-weighted Cooling Degree Days are 27.9% lower, the cumulative Cooling Degree Days are 19.4% higher, total U.S. gas inventory is 3.5% lower, crude oil inventory is 2.2% lower, total U.S. electricity production is 1.6% lower, Texas gas

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production is 8.4% higher, offshore Gulf gas production is 0.9% higher, Louisiana gas production is 2.8% lower, total U.S. gas production is 8.7% higher, and total U.S. rig count is 12.8% higher.

Spot Gas Prices in North America in U.S.

\$/MMBtu

Location	29-Oct	22-Oct	Change	October Index	November Outlook
Louisiana HH	\$6.59	\$6.91	-4.6%	\$7.47	\$8.22
West Texas	\$4.16	\$4.62	-10.0%	\$4.91	\$5.66
Columb. Gulf	\$6.65	\$6.95	-4.3%	\$7.40	\$8.15
Houston	\$5.95	\$6.58	-9.6%	\$7.28	\$8.03
New York	\$7.78	\$7.82	-0.5%	\$7.92	\$8.67
Chicago	\$6.48	\$7.10	-8.7%	\$7.03	\$7.78
Northwest-Demarcation	\$3.77	\$4.26	-11.5%	\$4.61	\$5.36
Opal, WY	\$3.58	\$4.13	-13.3%	\$3.42	\$4.17
El Paso, TX	\$4.02	\$4.62	-13.0%	\$4.64	\$5.39
So Cal Border	\$4.43	\$4.95	-10.5%	\$5.67	\$6.42
N Cal Border	\$6.00	\$6.36	-5.7%	\$6.24	\$6.99
PG&E Citygate	\$6.07	\$6.57	-7.6%	\$6.46	\$7.21
Dawn	\$6.82	\$7.25	-5.9%	\$7.50	\$8.25
Sumas, WA	\$5.83	\$6.44	-9.5%	\$6.22	\$6.97
Niagara, NY	\$6.98	\$7.39	-5.5%	\$7.60	\$8.35
Canada (US\$)	\$5.82	\$6.17	-5.7%	\$5.91	\$6.66
Average	\$5.68	\$6.13	-7.3%	\$6.27	\$7.02

Heat Rates for U.S. and Canada in Btu per kWh

Location	30-Oct	23-Oct	Change	November Outlook
Mass Hub	8943	8971	-0.3%	8,049
NY Zone G	9669	9312	3.8%	8,702
Ontario, Canada	7148	5518	29.5%	6,433
PJM West	8204	7847	4.5%	7,384
TVA (into)	7840	7469	5.0%	7,056
Cinergy Hub	6604	6462	2.2%	5,944
NI Hub	7165	7248	-1.1%	6,449
Entergy (into)	9636	8845	8.9%	8,672
ERCOT	4196	5715	-26.6%	3,776
Mid-Columbia	8705	9369	-7.1%	7,835
Palo Verde	10661	11276	-5.5%	9,595
North Path-15	8871	10206	-13.1%	7,984
South Path-15	11516	12895	-10.7%	10,364
Average	8397	8549	-1.8%	7,557